

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

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Gregory Scott

Chair  
Commissioner  
Commissioner  
Commissioner  
Commissioner

In the Matter of the Petition of Otter Tail Power  
Company to Revise its Cost of Energy  
Adjustment Clause Tariff to Accommodate  
Purchased Energy from Renewable Resources

ISSUE DATE: October 21, 2003

DOCKET NO. E-017/M-03-970

ORDER GRANTING PETITION AS  
MODIFIED

**PROCEDURAL HISTORY**

On June 27, 2003, Otter Tail Power Company filed a petition to revise its Cost of Energy Adjustment Clause tariff to permit the Company to use the tariff's automatic rate adjustment mechanism to recover the costs of purchased power generated by the use of wind or other renewable resources. The Company's immediate purpose was to establish a recovery mechanism for the costs of a newly-executed purchased power agreement for the combined output of 14 wind turbines, expected to total some 21 megawatts.

The Company proposed to recover the full contract price of these renewable energy purchases, including portions of the contract price that might be characterized as capacity costs. It also proposed to recover the cost of all purchases, whether or not individual purchases occurred on an economic dispatch basis. Finally, the Company clarified that the petition did not apply to any renewable energy purchased for its TailWinds program, a green-pricing program whose costs are already recovered through a renewable energy rider under Minn. Stat. § 216B.169, subd. 2.<sup>1</sup>

On July 28, 2003, the Department of Commerce filed comments that recommended granting the petition in part and denying it in part. The Department recommended limiting automatic rate recovery to portions of the contract price that could not be characterized as capacity charges, and to limit automatic recovery to individual purchases made on an economic dispatch basis. The Department also cautioned that the interrelationship between renewable energy and demand

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<sup>1</sup> *In the Matter of Otter Tail Power Company's Renewable Energy Rate Implementation Plan*, Docket No. E-017/M-01-1576, Order Approving Renewable Energy Rate Implementation Plan and Imposing Requirements (February 28, 2002).

charges would be examined and resolved in an industry-wide proceeding the Commission has recently opened <sup>2</sup>, and that the issue should not be predetermined here.

On August 8, 2003, the Company filed reply comments.

On October 2, 2003, the matter came before the Commission. At that time the parties submitted a joint recommendation that resolved all issues between them. That recommendation is summarized below:

- Otter Tail will recover 90% of its purchased power costs for the wind generation at issue through the Cost of Energy Adjustment Clause;
- Otter Tail will defer the remaining 10% of these costs, with the potential for later true-up;
- Otter Tail will provide the Department of Commerce with copies of the contract(s) at issue;
- Otter Tail and the Department will meet for further discussions when the Company's wind generation is fully operative and accreditation data is available from the Mid-Continent Area Power Pool;
- The costs of generation associated with the Company's TailWinds project will not be affected by this docket;
- Otter Tail will revise its tariff in accordance with the terms of its agreement with the Department of Commerce;
- This matter will come back to this Commission for further evaluation in one year.

## **FINDINGS AND CONCLUSIONS**

### **I. Factual Background**

The Energy Adjustment Clause is a regulatory tool originally designed to permit utilities to automatically pass through in rates changes in fuel costs, which traditionally were not under the utilities' control. Over time, as utilities relied more heavily on purchased power, the Clause has also been used to pass through purchased power costs.

Fuel costs and purchased power costs can fluctuate significantly between rate cases; automatic rate adjustments can protect both utilities and ratepayers from gross discrepancies between actual costs and the projected costs that would have to be built into rates without them. Automatic rate adjustments can also conserve utility and regulatory resources by eliminating the need for frequent rate cases to reflect changes in the price of fuel or purchased power.

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<sup>2</sup> *In the Matter of Detailing Criteria and Standards for Measuring an Electric Utility's Good Faith Efforts in Meeting the Renewable Energy Objectives Under Minn. Stat. § 216B.1691*, Docket No. E-999/CI-03-869.

Of course, permitting utilities to automatically pass through costs to ratepayers requires a great deal of certainty about their accuracy and prudence. For this reason the Commission normally restricts automatic rate recovery to purchases meeting a threshold prudence standard of economic dispatch – that is, to purchases that meet the need for energy more cost-effectively than other available resource options.

Similarly, permitting utilities to automatically pass through costs to ratepayers requires a high degree of confidence that the costs passed through fluctuate in response to factors extraneous to the kind of permanent changes in the character of a utility's business that merit examination in a rate case. For this reason the Commission does not normally permit the recovery of demand charges, on the theory that these charges reflect permanent conditions in the utility's service area and should therefore be factored into permanent rates.

Renewable energy, however, poses new issues. It is not clear, for example, whether wind generation should be treated as providing capacity, since wind generation is dependent upon climactic conditions and cannot be used at will. At the same time, however, reliability administrators and power pools accredit wind facilities at certain output levels for purposes of meeting utility reserve requirements, just as they do traditional power plants providing capacity. Similarly, principles of economic dispatch are harder to apply in the context of resources whose development the Legislature has specifically encouraged and found to be in the public interest.

## **II. Commission Action**

The Commission concurs with the parties that, given the unique factual situation confronting Otter Tail Power, the joint recommendation is reasonable, consistent with the public interest, and should be approved.

It is a fair and equitable short-term solution. It is narrowly tailored to meet the needs of this specific situation, limiting the tariff's application to wind energy and limiting its duration to one year. It avoids penalizing Otter Tail for company efforts to comply with legislative directives on renewable energy, without pre-judging the issues in the industry-wide proceeding. Its deferment/true-up provisions represent a fair balance of ratepayer and utility interests and preserve the Commission's ultimate ability to resolve the capacity charge issue consistent with its decisions in the industry-wide proceeding and informed by the knowledge acquired there.

For all these reasons, the Commission will approve the parties' joint recommendation.

### **ORDER**

1. Otter Tail is hereby authorized to recover 90% of its purchased power costs for the wind generation at issue through the Cost of Energy Adjustment Clause.

2. Otter Tail is hereby authorized to defer the remaining 10% of these costs, with the potential for later true-up.
3. Otter Tail shall provide the Department of Commerce with copies of the contract(s) at issue.
4. Otter Tail shall meet with the Department of Commerce for further discussions when the Company's wind generation is fully operative and accreditation data is available from the Mid-Continent Area Power Pool.
5. Cost recovery of the costs of generation associated with the Company's *TailWinds* project shall not be affected by this docket.
6. Otter Tail shall revise its tariff in accordance with the terms of its agreement with the Department of Commerce and this Order.
7. The Commission will re-examine this tariff within twelve months of the date of this Order.
8. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar  
Executive Secretary

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